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Item 4 of the provisional agenda

REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT FOR THE BIENNIUM 1996-1997

Financial performance report for the biennium 1996-1997

Submitted by the Director-General

Summary

Reports on the utilization of financial resources for the biennium 1996-1997 for the regular and operational budgets.

CONTENTS

		Paragraphs	*Page*
Introduction		1	2
Chapter			
I.	REGULAR BUDGET PERFORMANCE REPORT	2 - 22	2
II.	OPERATIONAL BUDGET	23 - 26	4
III.	ACTION REQUIRED OF THE COMMITTEE	27	5

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Introduction

1. In its conclusion 1987/19, paragraph (j), the Programme and Budget Committee requested the Director-General to submit each year to the Industrial Development Board through the Committee a clear and detailed financial performance report itemizing the utilization of financial resources. The present document presents a comparison for the biennium 1996-1997 of the budget estimates in terms of appropriations and income with actual expenditures and income. The information is provided for both the regular and operational budgets.

I. REGULAR BUDGET PERFORMANCE REPORT

A. Budget estimates for the biennium

2. The budget estimates for the biennium 1996-1997 presented in document IDB/S.6/2 and approved by the General Conference in decision GC.6/Dec.11 were adjusted to reflect changes made to the major programme estimates during the biennium within the total approved net budget as assessed on Member States.

3. The budget estimates comprise:

(a) The budget for 1996-1997 as approved by the General Conference in decision GC.6/Dec.11. The approved budget consisted of appropriations for the biennium of $210,246,600 and income estimates of $29,347,100 (including cost reimbursement) on the basis of an exchange rate of US$ 1 = AS 12.90;

(b) Budgetary adjustments to major programmes resulting from the introduction of organizational changes and programme structure adjustments during the biennium (PBC/AS.3/5-IDB.15/5) in accordance with decision IDB.15/Dec.3.

4. The revised budget estimates by major programme resulting from the above changes are presented in table 1. No changes were made in the budgetary allocations by major object of expenditure. Revisions to the dollar and schilling appropriations and income are shown in table 2.

5. At the time the General Conference approved the programme and budgets, there was a clear expectation that full financial implementation of the budget would be unlikely due to the anticipated non-payment by the United States of America of its 1996 mandatory obligations. For this reason, the Director-General was requested by the General Conference to implement the programme and budgets in accordance with the contingency plans (GC.6/Dec.11, para. (e)). The budget levels under the approved programme and budgets and contingency plans for the 1996-1997 biennium are shown in the following table:

	Thousands of US dollars at US$ 1 = AS 12.90		
	Expenditure	Income	Net
Programme and budgets, 1996-1997	210,246.6	29,347.1	180,899.5
Contingency plans, 1996-1997	187,116.2	28,923.9	158,192.3

6. The contingency plans included reductions in the number of established posts as follows:

	Professional	General Service	Total
Programme and budgets, 1996-1997	305	492	797
Contingency plans, 1996-1997[a]	277	401	678
Reduction in posts	28	91	119

[a]Including eight language training posts abolished as at 1 January 1997.

7. The present document presents the financial performance report on the basis of the programme and budgets for 1996-1997 approved in General Conference decision GC.6/Dec.11 and assessed on Member States. However, as can be seen from the above table, the introduction of the contingency plans effectively reduced the available budget by $22,707,200 or 12.6 per cent.

8. In accordance with decision GC.6/Dec.11, appropriations and estimated income for the biennium are adjusted to take account of exchange rate variations experienced during the biennium. The application of the average exchange rate for the biennium of US$1 = AS 11.28 to the revised appropriations and estimated income presented in table 3 resulted in a restatement of those items to $237,049,600 and $33,287,400, respectively.

B. Assessed contribution income for 1996-1997

9. The financial implementation of the approved programme and budgets is dependent on the actual level of cash resources available during the biennium. The source of financing of the regular budget is the assessed contributions of Member States. Assessed contributions for the biennium 1996-1997 paid to the Organization as

compared with the amounts assessed in accordance with General Conference decision GC.6/Dec.11 are as follows:

	Millions of US dollars
Assessed contributions payable[a]	202.2
Assessed contributions received	155.1
Shortfall in payments	47.1
Percentage shortfall	23.3

[a]Assessed contributions including the mandatory contribution of the United States of America, revalued in accordance with note 2(a) of document IDB.20/3-PBC.14/3.

C. Comparison of budget with actual expenditure and income for 1996-1997

10. A comparison of actual expenditure and income with the revised budget estimates for the biennium is presented below:

	Millions of US dollars			
	Revised US$ 1 = AS 11.28	Actual 1996-1997	Under-utilization	%
Expenditure	237.0	191.2	45.8	19.3
Income	33.3	26.8	6.5	19.5
Net	203.7	164.4	39.3	19.3

11. Comparisons of budget estimates with actual expenditure and income by major programme and major object of expenditure are presented in tables 3 and 4 respectively. Explanations of underutilization by major programme and major object of expenditure are provided in the following paragraphs.

D. Underutilization of the budget

12. The net underutilization of the budget comprised an underexpenditure on appropriations of $45.8 million (19.3 per cent) and a shortfall in income of $6.5 million (19.5 per cent). The major factor contributing to underutilization was the lack of sufficient cash resources throughout the biennium to implement the budget (see para. 9 above). The Organization began the 1996-1997 biennium with minimal available cash balances and fully depleted working capital. The uneven pattern and non-payment of assessed contributions during the biennium did not permit the Secretariat to evenly distribute resources to programmes or to fully implement the budgets. To cope with the financial realities, the Secretariat was obliged to restrict recruitment and reduce allocations for non-staff objects of expenditure, thereby underspending the approved budget.

13. The prospects of significant budget cuts and staff reduction for the forthcoming 1998-1999 biennium also contributed to restrictions in budgetary spending in late 1997. At the end of 1997, the Organization had built up a cash balance of $13.5 million, including cash surpluses from 1992-1993 and balances from the 1996 staff separation reserve. Although an improvement over the previous biennium, this balance barely covered unliquidated obligations. The Working Capital Fund of $6.6 million remained fully depleted.

E. Financial implementation by major programme

14. The underutilization of the budget in all major programmes was due to the impact of the contingency plans and the factors described in paragraphs 12 and 13 above. For the Organization as a whole, the underutilization was $45.8 million or 19.3 per cent. The above average underutilization in Major Programme 700 (Industrial Sectors and Environment) with expenditure $5.9 million (27 per cent) below budget was due mostly to a large number of vacant posts and underexpenditure in travel. Major Programme 300 (Country Programmes and Funds Mobilization) had a similar high level of underutilization of $6.4 million (26.2 per cent). In addition to the underutilization of staff costs due mainly to a high number of vacant posts, Major Programme 300 also underspent on travel and consultant costs. Below budget expenditure was also recorded in field offices, particularly for general operating costs and acquisition of furniture and equipment.

15. Lower-than-average underutilization in Major Programme 200 (General Management) of $2.3 million or 13.6 per cent, Major Programme 800 (Investment and Technology Promotion) of $2.7 million or 14.4 per cent and Major Programme 1200 (Administration) of $4.7 million or 11.3 per cent also reflected the underutilization in staff costs (albeit at lower levels than for other programmes). While these major programmes had fewer vacancies, budget resources were underutilized in expert group meetings, travel costs, contractual services, printing and general operating costs.

16. Expenditure was also reduced through the postponement of maintenance work in the Vienna International Centre (VIC) complex, cutbacks in expenditures for supplies and materials, and replacement of furniture and equipment. Reduction was also made in documentation and other expenditures in services provided to UNIDO. This resulted in an underexpenditure of $11.7 million (20.6 per cent) in Major Programme 1100 (Joint and Common Services).

Reductions in expenditure in this major programme had a direct impact on cost reimbursement income as described in paragraph 22 below.

F. Financial implementation by major object of expenditure

17. The underutilization of budgeted staff costs of $27.9 million (18.3 per cent) comprises:

	Millions of US$
Salaries	20.5
Common staff costs	5.9
Consultants	0.9
Ad hoc expert group meetings	0.4
Other	0.2
Net underutilization	27.9

18. The underutilization of budgeted salary costs was due to the reduction in the number of approved posts in the contingency plans, higher-than-budgeted vacancy factors for Professional posts and variations between actual and standard salary costs.

19. To reduce cash outflow and achieve expenditure reductions due to inadequate levels of cash resources, the following staff cost reduction measures were taken:

(a) Restriction of external recruitment to posts with specialized expertise in priority substantive programmes or essential managerial functions;

(b) Lower utilization of consultant services and *ad hoc* expert group meeting funds;

(c) Restrictions on hiring of general temporary assistance staff and payment of overtime.

20. Underutilization of travel of $1.9 million (46.9 per cent) resulted from savings through reduced standards of travel, maximizing the use of cheaper airfares and a general curtailment of staff travel. The cutbacks described in paragraph 16 above for supplies and materials, replacement of furniture and equipment as well as the postponement of VIC maintenance work resulted in an underutilization of the budget for these objects of expenditure of $5.7 million (17 per cent).

21. The underutilization of the Regular Programme of Technical Cooperation (RPTC) was limited to $1.9 million or 15.8 per cent of the budget for this object of expenditure, which reflects the priority given to funding these activities. The underutilization of other expenses of $6.8 million or 25.1 per cent was related to both Policy-making Organs and Joint and Common Services, in particular those of conference services, including translation and interpretation.

G. Income

22. The deficit of income over the budget estimates comprises

	Millions of US dollars			
	Budget	Actual	Surplus/ (deficit)	%
Cost re-imbursement income	31.6	26.0	(5.6)	
Miscel-laneous income	1.7	0.8	(0.9)	
Total	33.3	26.8	(6.5)	(19.5)

The deficit in cost reimbursement income of $5.6 million is directly related to the underutilization of the budgeted gross expenditure for VIC operating costs. Miscellaneous income was below budget estimates by $0.9 million, as detailed in the following table:

	Millions of US dollars		
	Budget	Actual	Surplus/ (deficit)
Interest income on cash balances	1.6	1.2	(0.4)
Income from sale of publications	0.1	0.2	0.1
Prior year recoveries of expenditure	-	0.6	0.6
Exchange gains	-	(2.5)	(2.5)
Other[a]	-	1.3	1.3
Total	1.7	0.8	(0.9)

[a] Includes CTBTO income for buildings management services

II. OPERATIONAL BUDGET

23. The operational budget is funded mainly from support cost income earned on technical cooperation project delivery and from technical services provided by the Organization. Support costs to be financed during the

biennium from operational budget income were presented in the programme and budget document (IDB/S.6/2) and approved by the General Conference in decision GC.6/Dec.11. Adjustments in accordance with decision IDB.15/Dec.3 resulting from the introduction of organizational changes and programme structure adjustments during the biennium were reported in document PBC/AS.3/5-IDB.15/5.

24. The financial results for the biennium are as follows:

	Millions of US dollars		
	Budget	Actual	Percentage
Technical cooperation delivery	242.0	208.3	86.0
Income earned on delivery and for technical services	29.2	24.8	84.9
Miscellaneous income	0.3	0.5	166.7
Total income	29.5	25.3	85.8
Expenditure	28.9	25.0	86.5
Surplus/(deficit)	0.6	0.3	50.0

25. A comparison of actual expenditure with the adjusted budget estimates, as contained in document PBC/AS.3/5-IDB.15/5, is presented in tables 5 and 6 by major programme and major object of expenditure, respectively.

26. As can be seen in the above table, the percentage shortfall in income was matched by a similar reduction in expenditure which resulted in a surplus for the biennium recorded in the operational budget. This was achieved by maintaining vacancies in established posts and restricting non-staff resource allocations. The average vacancy factor for 1996-1997 for Professional posts was 18.8 per cent and for General Service posts was 9.5 per cent. The surplus of $0.3 million from the 1996-1997 biennium increased the combined operating reserve and fund balances in the operational budget to $4.2 million at 31 December 1997.

III. ACTION REQUIRED OF THE COMMITTEE

27. The Committee may wish to take note of the information provided in the present document.

Table 1

Revised budget estimates for 1996-1997 by major programme

(In thousands of US dollars at US$ 1 = AS 12.90)

	Major programme	Approved budget 1996-1997 a/ (IDB/S.6/2) (a)			Adjustments b/ (b)			Revised budget estimates 1996-1997 (c)=(a + b)		
		Gross	Income	Net	Gross	Income	Net	Gross	Income	Net
100	Policy-making Organs	7,347.8		7,347.8				7,347.8		7,347.8
200	General Management	11,873.9		11,873.9	3,228.8		3,228.8	15,102.7		15,102.7
300	Country Programmes and Funds Mobilization	25,677.6		25,677.6	(3,992.0)		(3,992.0)	21,685.6		21,685.6
500	Research and Publications	15,796.4		15,796.4	(3,244.7)		(3,244.7)	12,551.7		12,551.7
600	Human Resource, Enterprise and Private Sector Development	12,052.6		12,052.6	763.2		763.2	12,815.8		12,815.8
700	Industrial Sectors and Environment	19,368.7		19,368.7				19,368.7		19,368.7
800	Investment and Technology Promotion	13,265.8		13,265.8	3,244.7		3,244.7	16,510.5		16,510.5
900	Common Programmes	18,069.7		18,069.7				18,069.7		18,069.7
1100	Joint and Common Services	49,983.9	26,986.5	22,997.4				49,983.9	26,986.5	22,997.4
1200	Administration	36,810.2	755.2	36,055.0				36,810.2	755.2	36,055.0
	Miscellaneous income		1,605.4	(1,605.4)					1,605.4	(1,605.4)
	TOTAL	210,246.6	29,347.1	180,899.5				210,246.6	29,347.1	180,899.5

Notes:

a/ Approved in GC.6/Dec.11.

b/ Reference to PBC/AS.3/5-IDB.15/5.

Table 2

Revisions to decision GC.6/Dec.11 (adjustment formula)

	GC.6/Dec.11, paragraph (b)		Adjustment		Revised adjustment formula	
	US dollars	Austrian schillings	US dollars	Austrian schillings	US dollars	Austrian schillings
Appropriations						
Policy-making Organs	430,000	89,240,200 /R)			430,000 + (	89,240,200 /R)
General Management	1,361,200	135,614,400 /R)	370,900	36,866,700	1,732,100 + (	172,481,100 /R)
Country Programmes and Funds Mobilization	2,907,900	293,729,580 /R)	(464,400)	(45,505,900)	2,443,500 + (	248,223,680 /R)
Research and Publications	2,098,800	176,698,700 /R)	(454,200)	(35,997,600)	1,644,600 + (	140,701,100 /R)
Human Resource, Enterprise and Private Sector Development	1,497,800	136,156,600 /R)	93,500	8,639,200	1,591,300 + (	144,795,800 /R)
Industrial Sectors and Environment	2,363,000	219,373,400 /R)			2,363,000 + (	219,373,400 /R)
Investment and Technology Promotion	1,760,600	148,416,800 /R)	454,200	35,997,600	2,214,800 + (	184,414,400 /R)
Common Programmes	5,609,700	160,733,940 /R)			5,609,700 + (	160,733,940 /R)
Joint and Common Services	2,950,800	606,726,500 /R)			2,950,800 + (	606,726,500 /R)
Administration	2,639,100	440,807,220 /R)			2,639,100 + (	440,807,220 /R)
Subtotal - Appropriations	23,618,900	2,407,497,340 /R)			23,618,900 + (	2,407,497,340 /R)
Estimated income						
Joint and Common Services	1,184,200	332,849,800 /R)			1,184,200 + (	332,849,800 /R)
Administration	28,000	9,380,700 /R)			28,000 + (	9,380,700 /R)
Miscellaneous	698,800	11,695,200 /R)			698,800 + (	11,695,200 /R)
Subtotal - Estimated income	1,911,000	353,925,700 /R)			1,911,000 + (	353,925,700 /R)
TOTAL NET REQUIREMENTS	21,707,900	2,053,571,640 /R)			21,707,900 + (	2,053,571,640 /R)

Note 1: The net requirements shown above assume a ratio of 12 per cent in US dollars and 88 per cent in Austrian schillings at an exchange rate of US$1 = AS 12.90.

Note 2: R represents the average United Nations exchange rate for Austrian schilling to US dollar which will be experienced during 1996-1997.

Table 3

Regular budget

Financial performance report for 1996-1997 by major programme

(In thousands of US dollars)

	Major programme	Revised budget 1996-1997 a/ at US$ 1 = AS 12.90 (a)	Revised budget estimates 1996-1997 at US$ 1 = AS 11.28 (b)	Actual expenditure/income 1/1/96 to 31/12/97 (c)	Unutilized balance at 31/12/97 (d)=(b-c)	Percentage (e)
Expenditure						
100	Policy-making Organs	7,347.8	8,341.4	6,964.6	1,376.8	16.5
200	General Management	15,102.7	17,023.0	14,705.0	2,318.0	13.6
300	Country Programmes and Funds Mobilization	21,685.6	24,449.1	18,052.6	6,396.5	26.2
500	Research and Publications	12,551.7	14,118.1	10,929.3	3,188.8	22.6
600	Human Resource, Enterprise and Private Sector Development	12,815.8	14,427.8	11,249.3	3,178.5	22.0
700	Industrial Sectors and Environment	19,368.7	21,811.0	15,931.7	5,879.3	27.0
800	Investment and Technology Promotion	16,510.5	18,563.6	15,894.9	2,668.7	14.4
900	Common Programmes	18,069.7	19,859.2	15,411.1	4,448.1	22.4
1100	Joint and Common Services	49,983.9	56,738.6	45,045.5	11,693.1	20.6
1200	Administration	36,810.2	41,717.8	37,010.0	4,707.8	11.3
	Total expenditure	210,246.6	237,049.6	191,194.0	45,855.6	19.3
Income						
1100	Joint and Common Services	26,986.5	30,692.2	24,969.8	5,722.4	
1200	Administration	755.2	859.6	980.3	(120.7)	
	Miscellaneous	1,605.4	1,735.6	855.2	880.4	
	Total income	29,347.1	33,287.4	26,805.3	6,482.1	19.5
	TOTAL	180,899.5	203,762.2	164,388.7	39,373.5	19.3

a/ see Table 1.

Table 4

Regular budget

Financial performance report for 1996-1997 by major object of expenditure

(In thousands of US dollars)

	Major object of expenditure	Approved budget 1996-1997 at US$ 1 =AS 12.90 (a)	Revised budget estimates 1996-1997 at US$ 1 = AS 11.28 (b)	Actual expenditure/income 1/1/96 to 31/12/97 (c)	Unutilized balance at 31/12/97 (d)=(b-c)	Percentage
Expenditure						
100	Staff costs	125,855.3	153,021.5	125,079.0	27,942.5	18.3
200	Official travel	3,760.8	4,108.9	2,180.5	1,928.4	46.9
300	Contractual services	733.0	806.8	733.4	73.4	9.1
400	General operating expenses	27,204.8	30,965.5	26,028.2	4,937.3	15.9
500	Supplies and materials	860.0	971.4	654.9	316.5	32.6
600	Acquisition of furniture and equipment	1,314.2	1,487.2	1,046.5	440.7	29.6
700	EDP non-staff costs	5,567.6	6,315.3	4,849.7	1,465.6	23.2
800	Technical cooperation	10,857.3	12,214.0	10,284.9	1,929.1	15.8
900	Other expenses	24,093.6	27,159.0	20,336.9	6,822.1	25.1
	Total expenditure	210,246.6	237,049.6	191,194.0	45,855.6	19.3
Income						
100	Staff costs	11,080.6	12,561.8	9,363.8	3,198.0	
200	Official travel	6.3	6.9	0.7	6.2	
400	General operating expenses	15,866.5	18,091.6	15,971.7	2,119.9	
500	Supplies and materials	233.2	263.2	152.9	110.3	
600	Acquisition of furniture and equipment	539.1	610.0	457.3	152.7	
700	EDP non-staff costs	0.7	0.8		0.8	
900	Other expenses	15.3	17.5	3.7	13.8	
	Miscellaneous	1,605.4	1,735.6	855.2	880.4	
	Total income	29,347.1	33,287.4	26,805.3	6,482.1	19.5
	TOTAL	180,899.5	203,762.2	164,388.7	39,373.5	19.3

Table 5

Operational budget
Financial performance report for 1996-1997 by major programme

(In thousands of US dollars)

	Major programme	Adjusted budget estimates 1996-1997 a/ at US$ 1 = AS 12.90 (a)	Actual expenditure 1/1/96 to 31/12/97 (b)	Variance (c)=(a-b)
	Policy-making Organs	-	-	
200	General Management	1,461.4	1,581.3	(119.9)
300	Country Programmes and Funds Mobilization	6,816.7	5,485.1	1,331.6
500	Research and Publications	427.4	466.6	(39.2)
600	Human Resource, Enterprise and Private Sector Development	2,748.8	2,448.0	300.8
700	Industrial Sectors and Environment	5,735.5	4,493.3	1,242.2
800	Investment and Technology Promotion	2,651.6	2,223.0	428.6
900	Common Programmes	285.2	158.2	127.0
100	Joint and Common Services	-	-	
1200	Administration	8,730.5	8,198.8	531.7
	TOTAL	28,857.1	25,054.3	3,802.8

a/ As reported in PBC/AS.3/5-IDB.15/5.

Table 6

Operational budget
Financial performance report for 1996-1997 by major object of expenditure

(In thousands of US dollars)

	Major object of expenditure	Adjusted budget estimates 1996-1997 at US$ 1 = AS 12.90 (a)	Actual expenditure 1/1/96 to 31/12/97 (b)	Variance (c)=(a-b)
100	Staff costs	25,231.0	23,069.2	2,161.8
200	Official travel	1,229.3	328.3	901.0
300	Contractual services	31.2	73.4	(42.2)
400	General operating expenses	1,006.5	900.6	105.9
500	Supplies and materials	159.0	60.0	99.0
600	Acquisition of furniture and equipment	284.6	144.5	140.1
700	EDP non-staff costs	915.5	463.1	452.4
800	Technical cooperation			
900	Other expenses		15.2	(15.2)
	TOTAL	28,857.1	25,054.3	3,802.8

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Items 4 and 7 of the provisional agenda

REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE FOR THE BIENNIUM 1996-1997

FINANCIAL REGULATIONS

Note on audit-related matters

Submitted by the Secretariat

Summary

Brings to the attention of the governing bodies information provided by the External Auditor on matters emanating from the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency.

CONTENTS

		Paragraphs	*Page*
Introduction		1	2
Chapter			
I.	ANNEX TO THE FINANCIAL REGULATIONS	2 - 4	2
II.	SPECIAL INDEPENDENT AUDITS REQUESTED BY EXTRABUDGETARY DONORS AND REVIEWS REQUESTED BY MEMBER STATES	5 - 6	2
III.	AUDITING STANDARDS	7 - 8	2
IV.	ACTION REQUIRED OF THE COMMITTEE	9	3

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CONTENTS *(continued)*

Page

Annexes

I. Suggested revision to paragraph 5 of the annex to the financial regulations 4

II. Exchange of correspondence between the Chairman, Panel of External Auditors, and the Secretary-General of the United Nations 5

Introduction

1. At the request of the External Auditor, the present document brings to the attention of the policy-making organs specific points relevant to UNIDO covering matters emanating from the Panel of External Auditors.

I. ANNEX TO THE FINANCIAL REGULATIONS

2. At its thirty-seventh session (December 1996) the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency agreed on a revised text of the additional terms of reference governing external audit. The purpose of the revised audit opinion is to combine a proper concern for the main elements with scope for variation to suit individual circumstances. On 15 January 1997 the Chairman of the Panel sent the revised text to the Secretary-General of the United Nations, with a request that all organizations be encouraged to adopt it.

3. At its meeting in August 1997, the Consultative Committee of the Panel generally supported the proposals put forward by the Chairman of the Panel, although some reservations had been expressed by the World Intellectual Property Organization, the International Telecommunications Union, the Universal Postal Union and the World Food Programme. As these reservations do not concern UNIDO, the External Auditor has requested that the revised audit opinion be brought to the attention of the governing bodies and has suggested a corresponding amendment to paragraph 5 of the annex to the financial regulations, which contains additional terms of reference governing the audit of UNIDO. It may be noted that the revised text of paragraph 5 was approved by the United Nations General Assembly at its fifty-second session (resolution 52/212). The suggested text for paragraph 5 of the annex to the financial regulations, corresponding to the revised audit opinion, is provided in annex I to the present document.

4. The intersessional working group on proposed amendments to the financial regulations may wish to take into consideration this suggested modification.

II. SPECIAL INDEPENDENT AUDITS REQUESTED BY EXTRABUDGETARY DONORS AND REVIEWS REQUESTED BY MEMBER STATES

5. In the past the question has arisen whether UNIDO should allow Member States and other donors to carry out independent audits and reviews of its activities. In that context, the Panel of External Auditors had noted that in some specialized agencies there was increasing pressure by Member States and extrabudgetary donors for special audits.

6. On 10 December 1997, the Chairman of the Panel of External Auditors wrote to the Secretary-General of the United Nations that, in principle, both extrabudgetary donors and Member States should be prepared to rely on the competence of the Organization and the normal internal and external audit arrangements. He added that the Panel had welcomed in particular the clear statement of the Administrative Committee on Coordination that secretariats of organizations and agencies in the United Nations system have no authority to conclude arrangements for audit by national authorities without the prior approval of the competent legislative bodies. In a letter dated 23 February 1998, the Secretary-General of the United Nations answered that the United Nations fully shares the position and consistently follows it in practice by not submitting itself for any audits by national authorities. The text of both letters is reproduced in annex II to the present document.

III. AUDITING STANDARDS

7. At its thirty-sixth session (1994) the Panel of External Auditors adopted a revised English text of the Common Auditing Standards and at its thirty-seventh session (1996) a French version of the Standards. Auditing standards provide minimum guidance for the auditor that helps determine the extent of auditing steps and procedures that should be applied in the audit. The new text confirms the principles introduced in the current standards but reflects more closely the wording used by the International Federation of Accountants (IFAC) and the International Organization of Supreme Audit Institutions (INTOSAI). In particular, the standards now include new sections which clarify issues of ethics and independence of the External Auditor.

8. The Panel also agreed that individual Panel members might wish to bring the current auditing standards to the attention of their governing bodies. The text of the Common Auditing Standards in English and French adopted by the Panel of External Auditors is provided in conference room paper PBC.14/CRP.2.

IV. ACTION REQUIRED OF THE COMMITTEE

9. The Committee may wish to consider the adoption of the following draft conclusion:

"The Programme and Budget Committee:

"(a) Takes note of the information on audit-related matters provided by the External Auditor and contained in document PBC.14/5-IDB.20/6;

"(b) Requests the intersessional working group on proposed amendments to the financial regulations to take into consideration the proposal of the Panel of External Auditors for paragraph 5 of the annex to the financial regulations as contained in annex I to document PBC.14/5-IDB.20/6;

"(c) Recommends to the Industrial Development Board the adoption of the following draft decision:

'The Industrial Development Board recommends that the General Conference take note of the information provided at the request of the External Auditor in document IDB.20/6-PBC.14/5 on audit-related matters.' "

Annex I

SUGGESTED REVISION TO PARAGRAPH 5 OF THE ANNEX TO THE FINANCIAL REGULATIONS[1]

5. The External Auditor shall express and sign an opinion on the financial statements of the Organization. The opinion shall include the following basic elements:

(a) The identification of the financial statements audited;

(b) A reference to the responsibility of the management of the United Nations Industrial Development Organization and the responsibility of the External Auditor;

(c) A reference to the audit standards followed;

(d) A description of the work performed;

(e) An expression of opinion on the financial statements as to whether:

- The financial statements present fairly the financial position as at the end of the period and the results of the operations for the period;
- The financial statements were prepared in accordance with the stated accounting policies; and
- The accounting policies were applied on a basis consistent with that of the preceding financial period.

(f) An expression of opinion on the compliance of transactions with the financial regulations and legislative authority;

(g) The date of the opinion;

(h) The External Auditor's name and position; and

(i) Should it be necessary, a reference to the report of the External Auditor on the financial statements.

[1]Based on the revised audit opinion of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency at its thirty-seventh meeting (December 1996).

Annex II

EXCHANGE OF CORRESPONDENCE BETWEEN THE CHAIRMAN, PANEL OF EXTERNAL AUDITORS, AND THE SECRETARY-GENERAL OF THE UNITED NATIONS

UNITED NATIONS NATIONS UNIES

PANEL OF EXTERNAL AUDITORS

NEW YORK
FAX (212) 963-3684

10 December 1997

His Excellency Mr. Kofi Annan
Secretary-General
United Nations
New York, NY 10017

Excellency,

I am writing to you, in your capacity as Chairman of the Administrative Committee on Coordination, on a matter considered by the Panel of External Auditors of the United Nations, Specialized Agencies and the International Atomic Energy Agency at its thirty-eighth session in Rome on 8-9 December 1997.

This matter relates to the Panel's concern over the continued pressure from donors and Member States for United Nations organizations to allow independent audits and reviews of their activities. You will recall that I discussed this with you when we met in July 1997 and I was pleased to have your support on the position taken by the Panel. I can now advise that the Panel, at its meeting in December 1997, reaffirmed the position set out in my letter of 18 January 1993 to your predecessor. In this, I reported the Panel's view that, in principle, both extrabudgetary donors and Member States should be prepared to rely on the competence of the Organization and the normal internal and external audit arrangements.

In this regard the Panel was pleased to note that the Advisory Committee on Administrative and Budgetary Questions, in its first report on the proposed programme budget for biennium 1998-99 (A/52/7), further endorsed the Panel's position. In particular, the Panel welcomed the Advisory Committee's clear statement that secretariats of organizations and agencies in the United Nations system have no authority to conclude arrangements for audit by national authorities without the prior approval of the competent legislative bodies. The Panel hopes that this important requirement will be respected by all the organizations in the United Nations system.

Accept, Excellency, the assurances of my highest consideration.

[Signed]

JOHN BOURN
Chairman, Panel of External Auditors

THE SECRETARY-GENERAL

23 February 1998

Dear Sir John,

In reference to your letter of 10 December 1997 concerning the inadmissibility of independent audits of the United Nations, I have taken note of your position and its further endorsement by the Advisory Committee. Please be assured that the United Nations fully shares the position stated in your letter and consistently follows it in practice by not submitting itself for any audits by national authorities.

I will continue to uphold this position also in my capacity as Chairman of the Administrative Committee on Coordination.

Yours sincerely,

[*Signed*]

Kofi A. Annan

Sir John Bourn
Chairman
Panel of External Auditors
New York

Distr.
GENERAL

IDB.20/7
PBC.14/6
14 August 1998

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

Industrial Development Board

Twentieth session
Vienna, 19-20 November 1998

Programme and Budget Committee

Fourteenth session
Vienna, 9-11 September 1998
Item 6 of the provisional agenda

PROGRAMME AND BUDGETS, 1998-1999

Proposed adjustments to the programme and budgets

Submitted by the Director-General

Summary

Proposes adjustments to the programme and budgets in the context of General Conference decision GC.7/16.

CONTENTS

		Paragraphs	*Page*
Introduction		1 - 5	2
Chapter			
I.	ISSUES ADDRESSED	6 - 10	2
II.	PROGRAMMATIC AND FINANCIAL ADJUSTMENTS	11 - 34	3
III.	BUDGET IMPLICATIONS	35 - 38	9
IV.	ACTION REQUIRED OF THE COMMITTEE	39	9
Annexes			
I.	REDUCTIONS IN REGULAR BUDGET FINANCIAL OUTFLOWS, JANUARY TO JUNE 1998		10
II.	1998-2007 MAJOR REPLACEMENT PROGRAMME COST-SHARED BY VIENNA-BASED ORGANIZATIONS		11

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

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Introduction

1. The programme and budgets, 1998-1999, approved by the General Conference in decision GC.7/Dec.16, were prepared on the basis of the Business Plan on the Future Role and Functions of UNIDO approved by the Industrial Development Board in June 1997 (IDB.17/Dec.2). The Business Plan is a policy document which calls for significant changes in UNIDO's programme focus, areas of emphasis, field representation and organizational structures.

2. The translation of the Business Plan into a programme budget demanded a complete revision of UNIDO's programme structures, activities and resource allocations. The programme and budgets were also prepared on the basis of a mandated budget reduction of 20 per cent requiring the abolition of established posts and consequent separation of staff.

3. The programme and budgets, 1998-1999, were prepared using a revised format and presentation, which emphasized the objectives, activities, outputs and resource allocations in terms of programmes rather than on the basis of organizational units. The programme and budget document did not, in fact, include information on a detailed organizational structure under which the programmes of work would be implemented. The designation of the lower level organizational units was the responsibility of the incoming Director-General, who took office immediately following the General Conference on 8 December 1997.

4. Recognizing the need "to provide a measure of flexibility in implementing the programme of work," the General Conference in decision GC.7/Dec.16, paragraph (e), "allowed the Director-General to submit to the Industrial Development Board for consideration, within the limits of the approved programme and budgets and the financial regulations, proposals that he might judge beneficial for the proper functioning of the Organization".

5. The present document discusses the programme and budget issues addressed by the Director-General during the first six months of the biennium and proposes adjustments to the programme and budgets, 1998-1999, within the financial ceiling of the budget as assessed on Member States.

I. ISSUES ADDRESSED

6. During the first six months of 1998, a number of important issues were addressed and programmatic and administrative initiatives implemented by the Director-General. Notwithstanding the difficult financial situation inherited, exacerbated by the mandated staff reduction programme for which insufficient financial resources were made available, significant progress was made in implementing the Business Plan and the programme and budgets.

7. A summary of the main issues addressed and initiatives taken during the first quarter of the biennium is given below:

(a) Introduction of emergency measures to restrict expenditures and restore cash balances to ensure a reasonable level of financial security resulting in the replenishment of the Working Capital Fund ($6.6 million) for the first time since November 1995. The impact has been that the disbursement up to June 1998 of $7.6 million for 1997 unliquidated obligations shows a reduction of $4.1 million over the balances at 31 December 1997 of $11.7 million. Furthermore, expenditures in the regular budget for the first six months of the biennium of $32.7 million represent 41.4 per cent of the 1998 budget of $79.0 million. On the basis of time elapsed, expenditures of $39.5 million could have been anticipated for this period;

(b) Completion of a voluntary staff separation programme by February 1998. The timely completion of the programme led to savings by shortening the period of post overencumbency. In addition, as explained in document IDB.19/9, significantly fewer staff were separated than was anticipated. The anticipated cost of $10.2 million represents a reduction of $5.7 million over the initial estimates;

(c) Creation of a three-division structure, assignment of staff and completion of terms of reference for organizational units;

(d) Introduction of a series of financial and administrative reforms emphasizing delegation of authority and increased accountability;

(e) Convening of meetings with Member States, industrialists, academics and UNIDO staff in a participatory process to elaborate a set of new integrated UNIDO services based on the mandate, core competencies and comparative advantages of UNIDO;

(f) Designation of field offices, transfer of staff and decentralization of substantive and administrative authority to UNIDO field representatives;

(g) Introduction of a number of cost-cutting measures, including cutbacks in documentation, and reductions in the duration of meetings to achieve savings in printing, interpretation, translation and other related

services. Savings as a result of these measures and other reductions in operating costs which will continue throughout 1998-1999 will amount to approximately $1.8 million. Part of the savings are proposed for redeployment to finance UNIDO's share of the "essential requirements" programme for Buildings Management Service, which is described later in this document. Savings are also anticipated in other objects of expenditure such as consultants, travel and meetings, where programme allocations have been restricted during 1998. These savings will be utilized for substantive activities which will be quantified by the end of 1998.

8. The significant reduction in financial outflows achieved as a result of measures introduced by the Director-General as described above are presented in annex I to the document.

9. The action taken as described in paragraphs 7 (a) to (g), which are important steps in the transformation of the Organization, required the formation of a strong team to advise the Director-General and to oversee the introduction of new policies and procedures. This necessitated the recruitment and redeployment of senior staff. However, as Member States had not provided the necessary cash resources to separate staff on programmatic grounds, the possibilities of recruitment or redeployment of staff were limited by the lack of available posts at the appropriate levels. The importance of ensuring a radical and decisive transformation called for an innovative approach to identify resources to permit the Director-General to establish his team within the financial confines of the approved budget. The resources have been made available by increasing the vacancy factor for Professional posts from 5 to 8.5 per cent and establishing posts at the appropriate level.

10. The budgetary adjustments required to support the proper functioning of the Organization are described in the following chapters.

II. PROGRAMMATIC AND FINANCIAL ADJUSTMENTS

11. The proposals outlined in the present document under the authority of General Conference decision GC.7/Dec.16, paragraph (e), address the major adjustments to the programme and budgets and do not include other resource transfers introduced under the authority of the Director-General as part of the ongoing programmatic review and implementation of the programme of work.

12. The adjustment proposals which the Director-General believes to be essential to the proper functioning of the Organization are listed below and explained in programmatic and financial terms. In order to remain within the limits of the programme and budgets, 1998-1999, some of the proposals will be financed from resources made available as a result of increasing the vacancy factor from 5 to 8.5 per cent for Professional posts at Headquarters. The other budget adjustments are effected through savings and redeployment of resources.

(a) Establishment of posts of special advisers to the Director-General (resources: RB $1,194,400 and OB $322,700)

13. As explained in paragraph 9 above, the establishment of these posts is necessary because vacant posts at the appropriate levels were not available to accommodate the required staff. This is because the non-voluntary separation of staff on programmatic grounds and consequent release of posts for recruitment or redeployment could not be undertaken due to a lack of adequate cash resources from Member States. Therefore, with a view to effecting and facilitating the transformation of the Organization as foreseen in the Business Plan, the Director-General has established a number of special adviser posts, which are financed from within the approved budget in areas of key importance for the revitalization of UNIDO. In particular, these posts relate to:

- Special Adviser and Assistant Director-General on Africa Affairs. This post has been established to support the Director-General in ensuring, in accordance with the Business Plan, the geographical focus of UNIDO activities relating to Africa and in strengthening the coordination of UNIDO policies and strategies for the effective delivery of services to African countries.

- Special Assistant to the Director-General on Major Policy Issues. This post has been established to support the Director-General, through monitoring and assessing relevant global trends and establishing effective linkages with the global research and business communities, in defining and further developing the role of UNIDO as a global forum.

(b) Conversion of Internal Audit into an Office of Internal Oversight with strengthened capacity (resources: RB $435,800)

14. The Director-General has converted the previous Internal Audit into an Office of Internal Oversight (OIO). This new Office has assumed greater responsibility and broadened functions. In particular, in the context of enhanced delegation of authority to both middle management levels at UNIDO Headquarters and to field representatives, OIO now places more emphasis on reviewing the functioning of Organization-wide management control

systems and procedures. OIO provides the Director-General directly with recommendations and advice that are taken into account in his decision-making.

15. In order to enable OIO to fully exercise its new functions, the Director-General proposes to strengthen OIO in terms of staff resources through the establishment of a Director-level post to reflect the enhanced responsibility and through the redeployment of a General Service-level post.

(c) Establishment of a post of Controller (resources: RB $274,900)

16. The Director-General places great importance on the provision of coordinated and effective administrative services. This is of particular importance in the light of the decentralization of responsibility and delegation of authority to programme managers and the field, which requires a strong system of administrative support and financial control. For this reason, the Director-General has established a post of Controller through redeployment to effectively develop and operate financial, human resource, management information service and general service functions.

(d) Maintaining UNIDO's representation in Geneva (resources: RB $443,500)

17. With the United Nations system-wide reforms as proposed by the Secretary-General entering into their decisive implementation stage, all United Nations organizations are called upon to ensure a better integration of their activities, both among Headquarters and at the field level. Strong complementarities exist in particular between the mandate of UNIDO on the one hand and those of UNCTAD, ITC and WTO on the other. The strong cooperation envisaged—as already exemplified in the UNCTAD/UNIDO memorandum of understanding signed in March 1998—provides added significance to the functions of the UNIDO Geneva Office which the Director-General thus proposes to maintain.

18. Compared with the previous biennium, the resources allocated to the Geneva Office have been further reduced through (a) downgrading the Professional-level post to the P-2/P-3 level, and (b) cutting the costs for rental of premises to less than half as a result of the office relocation within the Palais des Nations.

(e) Increased allocation for staff training (resources: RB $190,200)

19. As a direct result of the Business Plan, which calls for the discontinuation of certain activities and establishes new areas of concentration and emphasis, the skill profile required of UNIDO staff is bound to be subject to significant change. Meanwhile, the Business Plan has been translated and operationalized into a portfolio of integrated UNIDO services, some of which feature innovative approaches and call for new types of expertise which at present are not, or are only insufficiently, available. To meet the challenge of staff training and re-training in accordance with the requirements emanating from the Business Plan, the Director-General proposes to increase the budgetary allocation for staff training by $190,200. This would constitute an increase of 39 per cent over the amount originally budgeted for this purpose ($495,500).

(f) Support to the Vienna Chapter of the Group of 77 and China (resources: RB $338,300)

20. The Group of 77 and China (G-77) has established seven chapters in different locations with the support of United Nations organizations. These are located in New York, Geneva, Rome, Paris, Nairobi, Washington and Vienna. In order to assist the Vienna Chapter, the Director-General intends to provide support services related to the preparation and servicing of meetings, access to official documentation, interaction with other G-77 chapters as well as interaction with international and regional organizations whose mandates and programmes are of relevance to the technical cooperation activities of UNIDO. Through the G-77 Vienna Chapter, support is also provided to those Permanent Missions accredited to UNIDO yet located in other capitals.

21. The Director-General has redeployed one Professional-level post and one General Service-level post to provide the effective support needed by the G-77 Vienna Chapter for 1998-1999. The general operating costs of the office are to be met from the budgetary allocations under Buildings Management Section and General Services. The Director-General also intends to raise, at the next meeting of the Executive Heads of the United Nations agencies based in Vienna, the question of providing continuous support to the G-77 Vienna Chapter on a rotational basis among all the agencies.

(g) Responsibility for Buildings Management Section (BMS) at the Vienna International Centre (VIC) (resources: RB $0.0)

22. In paragraph 83 of the programme and budget document (GC.7/21), information was provided on the proposal for UNIDO to transfer responsibility for the management of BMS to another organization from 1 January 1999. That proposal was made primarily to relieve UNIDO of the administrative and management burden of managing a complex operation. This appeared a logical step in the light of the significant staff reductions in UNIDO in recent years and the fact that UNIDO's

share of the costs of BMS had fallen to approximately 20 per cent.

23. As explained in the programme and budget document, the transfer of responsibility was dependent on the agreement of one of the other organizations to take on this responsibility. In discussions held during 1998, neither the International Atomic Energy Agency nor the United Nations Office at Vienna has expressed the wish to take over the responsibility for the management of BMS. Therefore, for the time being, UNIDO has no choice but to continue to abide by the provisions of the Memorandum of Understanding Concerning the Allocation of Common Services, under which UNIDO has responsibility for the Service.

24. The Director-General will continue his efforts to find the optimal arrangements for the provision of BMS services in consultation with the heads of the other organizations in the VIC. He will explore various possible options and will keep Member States informed of any new proposals on the management of BMS services. Table 1 presents this as budget adjustment A.

25. However, in the event that the status quo should continue, at least through 1999, UNIDO would continue to retain responsibility for the operation of the Buildings Management Section at the VIC. This would not result in any increase in the net budgetary resource level of $7,526,300, representing UNIDO's share of the cost of BMS for the 1998-1999 biennium.

26. The budget adjustment comprises the restoration of the established posts and gross budget for the cost of BMS for 1999 (at similar levels to 1998) and increases the estimates for cost reimbursement income. Such income is recovered from the agencies sharing in the BMS costs in accordance with the agreed cost-sharing modalities. The proposal does not increase the net budget comprising UNIDO's share for BMS. Furthermore, six General Service administrative support posts which were abolished in Financial Services and Personnel Services in the 1998-1999 programme and budgets will not be restored. The ongoing administration of BMS will be undertaken within the lower level of resources approved for the Division of Administration in the programme and budgets. The proposed restoration of three cost-shared posts in General Services would also not increase the net requirements. Table 1 presents this as budget adjustment B.

(h) Essential requirements programme—BMS (net resource requirement of $1,554,000)

27. As stated in the programme and budgets, 1998-1999 (GC.7/21, paras. 83 and G.28) funds are required to start a major replacement programme for the upkeep of the buildings in the VIC. The financial estimates for the replacement programme for the biennium 1998-1999 were provided in that document, but the source of financing could not be identified, nor could the required funds be provided. As indicated in that document (para. 84), the estimated requirement could not be absorbed in the regular budget, as it had already been subjected to a 20 per cent reduction.

28. An agreement with the Austrian Government provides for a fund to cover major repairs and replacements (MRRF), under which certain VIC activities are undertaken each year, and to which the Vienna-based Organizations (VBOs) contribute. At present, VBOs contribute a total of $0.9 million per year. In 1998, VIC repairs and replacements to be covered by MRRF will cost $1.65 million. The difference in costs between the VBOs' contributions and the actual costs for repair and replacement is made up by the Austrian Government. However, owing to requirements under Austrian law, that agreement does not provide for the items in the proposed essential requirements programme.

29. The buildings in the VIC contain automation and buildings operation installations and systems that were provided by the Austrian Government and that have been in operation since 1979. In addition, the VBOs have installed other systems, beginning in 1980.

30. The essential requirements for the 1998-1999 biennium, as shown in annex II to the present document, represent a major replacement programme in all areas of the buildings of the VIC. After nearly 20 years' occupancy, replacement of worn-out installations and equipment subject to frequent breakdowns and of obsolete technology systems are necessary to maintain an acceptable reliability of operations and to ensure the safety of the occupants. Major elements of the programme for the present biennium include a central automation and control computer for the VIC technical installations and equipment, replacement of technical and sanitary installations and equipment as well as technical modifications to buildings.

Table 1
Regular budget

(In US dollars)

	GC.7/Dec.16	*Budget Adjustment A*[a]	*Budget Adjustment B*[b]
Appropriations			
Policy-making Organs	6,680,000	6,085,600	6,085,600
General Management	10,474,000	11,455,200	11,455,200
Strengthening of Industrial Capacities	42,017,500	40,975,700	40,975,700
Cleaner and Sustainable Industrial Development	14,415,000	14,171,700	14,171,700
Regional Programme Management	20,343,700	20,214,700	20,214,700
Technical Cooperation Management	7,567,600	7,421,900	7,421,900
Administration	44,400,800	47,975,800	65,175,500
Total - (1)	145,898,600	148,300,600	165,500,300
Estimated income			
Regional Programme Management	895,500	895,500	895,500
Administration	13,954,100	16,356,100	33,555,800
Miscellaneous income	1,508,300	1,508,300	1,508,300
Total - (2)	16,357,900	18,759,900	35,959,600
Net requirements - (1-2)	129,540,700	129,540,700	129,540,700

[a]Responsibility for the management of BMS transferred.
[b]Should UNIDO continue to manage BMS in 1999.

31. A 10-year programme with an estimated magnitude of $46.4 million will take place in scheduled phases, each of which must be planned in such a way that the greatest part of the system under repair or replacement remains operational and continues to provide the relevant VIC services. Thus, consultancy services will be required in some areas for planning and implementation activities.

Financial requirements

32. UNIDO proposes to start the 10-year programme in the 1998-1999 biennium, with estimated costs of $46.4 million, of which $4.1 million would be covered by the major repair and replacement fund (see para. 28 above and annex II to the present document) and the remainder (essential requirements) from the regular budget under BMS. The cost to UNIDO over the 10-year period for the essential requirements would amount to some $8.9 million which will be approved on a biennial basis within the programme and budgets. In the first phase, covering the 1998-1999 biennium, the costs would be approximately $3.4 million in 1998 and approximately $4.0 million in 1999, with a total cost of $7.4 million; these amounts are to be cost-shared with all VBOs. For the present and future bienniums, the share of costs for each organization will vary according to the number of staff and the occupancy rate of the buildings.

33. Of the $7.4 million required for the current biennium, UNIDO's share is approximately $1.6 million. As regards the other VBOs, the United Nations has provided in its budgets for the 1998-1999 biennium the UNOV share of $1.7 million; the International Atomic Energy Agency is in the process of securing its share for 1998 ($1.9 million); and the Preparatory Commission for the Comprehensive Nuclear-Test-Ban Treaty Organization/ Provisional Technical Secretariat has already obligated its share for 1998 ($0.2 million). The latter two organizations are expected to budget for similar levels in 1999.

Modalities for funding the essential requirements programme

34. In view of the urgency of undertaking these programmes for which funding has already been secured by the other VBOs, it is proposed that the requirements for UNIDO's share for 1998-1999 be met through a redeployment of savings achieved through cost-cutting

Table 2 (a)
REGULAR BUDGET ADJUSTMENT A FOR 1998-1999
(In thousands of US dollars at US$ 1 = AS 12.90)

By major programme

	Budget 1998-1999				*Budget adjustments*			*Adjusted budget 1998-1999*			
	Expenditure	*Income*	*Net*	*Percentage of net total budget*	*Expenditure*	*Income*	*Net*	*Expenditure*	*Income*	*Net*	*Percentage of net total budget*
Policy-making Organs	6,680.0		6,680.0	5.2	-594.4		-594.4	6,085.6		6,085.6	4.7
General Management	10,474.0		10,474.0	8.1	981.2		981.2	11,455.2		11,455.2	8.8
Strengthening of Industrial Capacities	42,017.5		42,017.5	32.4	-1,041.8		-1,041.8	40,975.7		40,975.7	31.6
Cleaner and Sustainable Industrial Development	14,415.0		14,415.0	11.1	-243.3		-243.3	14,171.7		14,171.7	10.9
Regional Programme Management	20,343.7	895.5	19,448.2	15.0	-129.0		-129.0	20,214.7	895.5	19,319.2	14.9
Technical Cooperation Management	7,567.6		7,567.6	5.8	-145.7		-145.7	7,421.9		7,421.9	5.7
Administration	44,400.8	13,954.1	30,446.7	23.5	3,575.0	2,402.0	1,173	47,975.8	16,356.1	31,619.7	24.4
Miscellaneous income		1,508.3	-1,508.3	-1.2					1,508.3	-1,508.3	-1.2
	145,898.6	16,357.9	129,540.7		2,402.0	2,402.0	-0.0	148,300.6	18,759.9	129,540.7	

By major object of expenditure

0	Staff costs	86,436.9	4,726.9	81,710.0	63.1			86,436.9	4,726.9	81,710.0	63.1
0	Official travel	2,192.1	3.3	2,188.8	1.7			2,192.1	3.3	2,188.8	1.7
0	Contractual services	694.7		694.7	0.5			694.7		694.7	0.5
0	General operating expenses	16,869.2	9,845.4	7,023.8	5.4	-525.2	-414.9	-110.3	16,344.0	9,430.5	6,913.5	5.3
0	Supplies and materials	780.8	104.8	676.0	0.5	-13.3	-10.4	-2.9	767.5	94.4	673.1	0.5
0	Acquisition of furniture and equipment	473.1	167.1	306.0	0.2	3,578.9	2,827.3	751.6	4,052.0	2,994.4	1,057.6	0.8
0	EDP non-staff costs	4,164.1		4,164.1	3.2				4,164.1		4,164.1	3.2
0	Technical cooperation and IDDA	13,676.7		13,676.7	10.6				13,676.7		13,676.7	10.6
0	Other expenditures	20,611.0	2.1	20,608.9	15.9	-638.4		-638.4	19,972.6	2.1	19,970.5	15.4
	Miscellaneous income		1,508.3	-1,508.3	-1.2					1,508.3	-1,508.3	-1.2
		145,898.6	16,357.9	129,540.7		2,402.0	2,402.0	0.0	148,300.6	18,759.9	129,540.7	

Table 2 (b)
REGULAR BUDGET ADJUSTMENT B FOR 1998-1999
(In thousands of US dollars at US$ 1 = AS 12.90)

By major programme

		Budget 1998-1999				*Budget adjustments*			*Adjusted budget 1998-1999*			
		Expenditure	*Income*	*Net*	*Percentage of net total budget*	*Expenditure*	*Income*	*Net*	*Expenditure*	*Income*	*Net*	*Percentage of net total budget*
A	Policy-making Organs	6,680.0		6,680.0	5.2	-594.4		-594.4	6,085.6		6,085.6	4.7
B	General Management	10,474.0		10,474.0	8.1	981.2		981.2	11,455.2		11,455.2	8.8
C	Strengthening of Industrial Capacities	42,017.5		42,017.5	32.4	-1,041.8		-1,041.8	40,975.7		40,975.7	31.6
D	Cleaner and Sustainable Industrial Development	14,415.0		14,415.0	11.1	-243.3		-243.3	14,171.7		14,171.7	10.9
E	Regional Programme Management	20,343.7	895.5	19,448.2	15.0	-129.0		-129.0	20,214.7	895.5	19,319.2	14.9
F	Technical Cooperation Management	7,567.6		7,567.6	5.8	-145.7		-145.7	7,421.9		7,421.9	5.7
G	Administration	44,400.8	13,954.1	30,446.7	23.5	20,774.7	19,601.7	1,173.0	65,175.5	33,555.8	31,619.7	24.4
	Miscellaneous income		1,508.3	-1,508.3	-1.2					1,508.3	-1,508.3	-1.2
		145,898.6	16,357.9	129,540.7		19,601.7	19,601.7	-0.0	165,500.3	35,959.6	129,540.7	

By major object of expenditure

100	Staff costs	86,436.9	4,726.9	81,710.0	63.1	5,875.5	4,634.7	1,240.8	92,312.4	9,361.6	82,950.8	64.0
200	Official travel	2,192.1	3.3	2,188.8	1.7	4.6	3.5	1.1	2,196.7	6.8	2,189.9	1.7
300	Contractual services	694.7		694.7	0.5				694.7		694.7	0.5
400	General operating expenses	16,869.2	9,845.4	7,023.8	5.4	11,039.9	8,719.0	2,320.9	27,909.1	18,564.4	9,344.7	7.2
500	Supplies and materials	780.8	104.8	676.0	0.5	113.8	89.9	23.9	894.6	194.7	699.9	0.5
600	Acquisition of furniture and equipment	473.1	167.1	306.0	0.2	7,787.5	6,152.0	1,635.5	8,260.6	6,319.1	1,941.5	1.5
700	EDP non-staff costs	4,164.1		4,164.1	3.2				4,164.1		4,164.1	3.2
800	Technical cooperation and IDDA	13,676.7		13,676.7	10.6				13,676.7		13,676.7	10.6
900	Other expenditures	20,611.0	2.1	20,608.9	15.9	-5,219.6	2.6	-5,222.2	15,391.4	4.7	15,386.7	11.9
	Miscellaneous income		1,508.3	-1,508.3	-1.2					1,508.3	-1,508.3	-1.2
		145,898.6	16,357.9	129,540.7		19,601.7	19,601.7	0.0	165,500.3	35,959.6	129,540.7	

measures in BMS operating costs and in the Joint and Common Services for language and documentation services, printing and library. Therefore, the requirements will be met from within the current level of the approved budget and no additional funds will be sought from Member States. Funding for the essential requirements in future periods will be included in the programme and budget proposals for the respective bienniums.

III. BUDGET IMPLICATIONS

35. In accordance with General Conference decision GC.7/Dec.16, the adjustment proposals are made within the limits of the approved programme and budgets. Consistent with the information contained in the programme and budget document (GC.7/21), the financial information presented in the document is expressed at 1998-1999 rates and at the budget rate of exchange of US$ 1 = AS 12.90.

36. The adjusted appropriation and estimated income amounts are presented in table 1, including the budgetary adjustment should UNIDO continue to manage BMS in 1999.

37. Tables 2 (a) and (b) show the adjustments by major programme and major object of expenditure.

38. The requirements for the operational budget for 1998-1999 are adjusted from $27,490,200 to $27,364,300.

IV. ACTION REQUIRED OF THE COMMITTEE

39. The Committee may wish to recommend that the Board take note of the adjustments to the programme and budgets for 1998-1999 outlined in document IDB.20/7-PBC.14/6 within the context of General Conference decision GC.7/16, paragraph (e).

Annex I

REDUCTIONS IN REGULAR BUDGET FINANCIAL OUTFLOWS, JANUARY TO JUNE 1998

(In millions of US dollars)

		Reduced financial outflows	*Permanent reductions*	*Delayed outflows*
A.	**1997 unliquidated obligations**	**4.1**	**3.2**	**0.9**
B.	**Staff Separation Programme**	**6.8**	**5.7**	**1.1**
C.	**Reduced expenditures**			
	Staff costs	1.5		
	Consultants	0.3		
	Meetings	0.1		
	Travel	0.3		
	Operating costs	0.6		
	MIS non-staff	0.4		
	RPTC/IDDA	1.9		
	Joint and Common Services	1.7		
	Total	6.8	0.5[a]	6.3
D.	**Total**	**17.7**	**9.4**	**8.3**

[a]Based on the reduced financial outflows in the first quarter of the biennium. Savings in Operating Costs and Joint and Common Services of $1.8 million for the biennium are anticipated.

Note: As a result of these financial restrictions on cash outflow, the Working Capital Fund was replenished to its approved level at $6.6 million for the first time since November 1995.

Annex II

**1998-2007 MAJOR REPLACEMENT PROGRAMME
COST-SHARED BY VIENNA-BASED ORGANIZATIONS**

(In millions of dollars at US$ 1 = AS 12.90)

Description	*10-year programme*	*Requirements 1998-1999*
Central VIC automation and control computer	2.60	1.90
Facility management system (hardware, software)	0.60	0.60
Replacement of elevator parts, chargers, cooling equipment, measuring controls	9.10	1.00
Carpet replacement programme	4.00	0.30
Modifications to buildings and equipment	13.20	0.60
Replacement of sanitary installations	3.60	0.50
Replacement of technical installations	6.70	1.60
Replacement of documents conveyor system	3.00	0.00
Replacement of heating and air conditioning systems	3.60	1.10
Subtotal - Major Replacement Programme	46.40	7.60
Contribution by MRRF	4.10	0.20
Net Essential Requirements (gross)	42.30	7.40
Cost-sharing of essential requirements		
Other VBOs (Income - 79 per cent)	33.42	5.85
UNIDO's share (Net - 21 per cent)	8.88	1.55
Total (Gross - 100 per cent)	**42.30**	**7.40**

Note: The cost-sharing for future biennium is indicative only.

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FINANCIAL SITUATION OF UNIDO

Report by the Director-General

Summary

Provides information on the financial situation as at 30 June 1998 on the regular and operational budgets. In compliance with decision IDB.19/Dec.5, contains information on the progress achieved in the settlement of arrears and in the timely payment of assessed contributions.

1. The financial situation as at 30 June 1998 can be summarized in the following major points:

(a) The level of regular budget cash resources ($17.7 million, including the Working Capital Fund) compares favourably with 1997 ($11.3 million as at 30 June 1997);

(b) The rate of collection of current year assessed contributions of 61.8 per cent compares favourably with the same period for 1997 and 1996 (47.4 and 47.8 per cent, respectively);

(c) However, the collection rate of prior years' contributions (4 per cent) is less than in 1997 and 1996 (7.8 and 9 per cent, respectively);

(d) The Secretariat has communicated with Member States on payment plans for the settlement of outstanding assessed contributions;

(e) The cost of the staff separation programme is estimated at $10.4 million with disbursements to date of $9.1 million.

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(f) Technical cooperation delivery, operational budget income and expenditures are at lower-than-budgeted levels.

2. The status of assessed contributions to the regular budget is shown in the annex to the present document. Outstanding contributions comprise:

	US$
1986 to 1997	36,143,194
United States of America	60,781,177
1998	25,560,837
Total outstanding contributions	122,485,208

3. As indicated in the annex, the voting rights of 62 Member States have been suspended owing to arrears in payment of assessed contributions, including five members of the Board and four members of the Programme and Budget Committee.

4. In its decision IDB.19/Dec.5, the Board reaffirmed the principle of collective financial responsibility of all Member States and their obligation to pay their assessed contributions in full and on time. In that decision, the Board adopted the report of the open-ended discussion group on timely payment of assessed contributions and requested the Director-General to take forward the measures recommended therein.

5. On 8 June 1998, UNIDO communicated the group's recommendations and Board decision IDB.19/Dec.5 in a letter to Member States whose voting rights had been suspended. The combined arrears of those Member States total $30.06 million. Responses are now awaited to the Secretariat communication, which included a request to ascertain the interest of each Member State in settling its arrears under a payment plan, as decided by the Board.

6. Cash balances amount to $17.7 million. A comparison of the cash flow estimate as presented to Member States in January 1998 and the present status is shown in table 1. The financial status of the staff separation programme is shown in table 2. Table 3 indicates the status of the operational budget.

ACTION REQUIRED OF THE COMMITTEE

7. The Committee may wish to take note of the information contained in the present document.

Table 1. Regular budget cash flow, January to June 1998
(Millions of US dollars)

	Actual	Projected (January 1998)
Opening balance (1 January 1998)	13.5	11.8*
Receipts		
Assessed contributions		
- 1997 or prior years	2.7	6.9
- 1998	40.2	32.3
Other income	4.7	5.8
Total receipts	47.6	45.0
Disbursements		
Regular budget	26.3	33.9
Separation indemnity	9.1	10.7
1997 obligations	7.6	11.0
Movement in receivables/ payables	0.4	—
Total disbursements	43.4	55.6
Closing balance (incl. Working Capital Fund) (30 June 1998)	17.7	1.2

*$11.8 million was an estimated figure which was later adjusted to the actual year-end balance of $13.5 million.

Table 2. Staff separation programme
Financial status as at 30 June 1998

	Millions of US$
Amount authorized from 1994-1995 unutilized balances (GC.7/Dec.17)	13.9
Staff separation estimates for 1998	10.4
Disbursements to 30 June 1998	9.1

Table 3. Operational budget
Status as at 30 June 1998

	Millions of US$
Technical cooperation delivery	46.0
Reserve balance (1 January 1998)	4.2
Income	5.8
Expenditure	(6.8)
Reserve balance (30 June 1998)	3.2

Annex

STATUS OF ASSESSED CONTRIBUTIONS TO THE UNIDO REGULAR BUDGET

(As at 30 June 1998)

	Outstanding contributions (In equiv. US dollars) (at RoE: 12.40)[1]	*Year(s) outstanding*	*Status of voting rights*[2]
Afghanistan	57,431	1992(P)-1998	*NO*
Albania	66,092	1992(P)-1998	*NO*
Algeria	422,470	1996(P)-1998	
Angola	5,384	1998(P)	
Argentina	1,535,686	1996(P)-1998	
Armenia	753,761	1992-1998	*NO*
Austria	-		
Azerbaijan	1,118,457	1993-1998	*NO*
Bahamas	31,693	1997(P)-1998	
Bahrain	-		
Bangladesh	88	1998(P)	
Barbados	6,678	1998(P)	
Belarus	1,437,338	1995(P)-1998	*NO*
Belgium	-		
Belize	6,544	1998	
Benin	5,897	1998	
Bhutan	17,936	1996(P)-1998	
Bolivia	68,363	1991(P)-1998	*NO*
Bosnia and Herzegovina	202,750	1992-1998	*NO*
Botswana	-		
Brazil	7,071,027	1995(P)-1998	*NO*
Bulgaria	72,900	1998	
Burkina Faso	80,709	1990(P)-1998	*NO*
Burundi	50,618	1993(P)-1998	*NO*
Cambodia	30,326	1995(P)-1998	*NO*
Cameroon	2,597	1998	
Cape Verde	74,816	1991(P)-1998	*NO*
Central African Republic	90,791	1989(P)-1998	*NO*
Chad	75,103	1991-1998	*NO*
Chile	163,041	1996(P)-1998	
China	702,448	1998	
Colombia	-		
Comoros	110,795	1986-1998	*NO*
Congo	85,459	1989(P)-1998	*NO*
Costa Rica	73,549	1991(P)-1998	*NO*
Côte d'Ivoire	-		
Croatia	456,410	1995(P)-1998	*NO*
Cuba	160,439	1996(P)-1998	
Cyprus	-		
Czech Republic	-		

	Outstanding contributions (In equiv. US dollars) (at RoE: 12.40)[1]	*Year(s) outstanding*	*Status of voting rights*[2]
Democratic People's Republic of Korea	348,460	1992(P)-1998	*NO*
Democratic Republic of the Congo	84,623	1989(P)-1998	*NO*
Denmark	-		
Djibouti	74,837	1991(P)-1998	*NO*
Dominica	64,072	1992(P)-1998	*NO*
Dominican Republic	243,153	1986-1998	*NO*
Ecuador	101,763	1995(P)-1998	*NO*
Egypt	72,431	1998	
El Salvador	99,215	1988-1998	*NO*
Equatorial Guinea	110,795	1986-1998	*NO*
Eritrea	21,871	1996(P)-1998	
Ethiopia	17	1998(P)	
Fiji	10,809	1997(P)-1998	
Finland	-		
France	5,998,347	1998	
Gabon	44,725	1995(P)-1998	*NO*
Gambia	67,229	1991(P)-1998	*NO*
Georgia	1,296,850	1992-1998	*NO*
Germany	4,272,062	1998(P)	
Ghana	13,641	1997(P)-1998	
Greece	-		
Grenada	78,301	1990(P)-1998	*NO*
Guatemala	175,607	1990(P)-1998	*NO*
Guinea	43,542	1994(P)-1998	*NO*
Guinea-Bissau	95,516	1988(P)-1998	*NO*
Guyana	-		
Haiti	6,351	1998	
Honduras	68,239	1991(P)-1998	*NO*
Hungary	-		
India	138,124	1998(P)	
Indonesia	131,996	1998	
Iran (Islamic Republic of)	1,312,579	1996(P)-1998	
Iraq	1,138,733	1990(P)-1998	*NO*
Ireland	-		
Israel	-		
Italy	-		
Jamaica	6,678	1998(P)	
Japan	-		
Jordan	-		
Kazakhstan	334,473	1997-1998	
Kenya	4,722	1998(P)	
Kuwait	177,774	1998	
Kyrgyzstan	296,047	1993-1998	*NO*
Lao People's Democratic Republic	-		
Lebanon	-		
Lesotho	6,678	1998	
Liberia	83,599	1990-1998	*NO*
Libyan Arab Jamahiriya	804,283	1995(P)-1998	*NO*

	Outstanding contributions (In equiv. US dollars) (at RoE: 12.40)[1]	*Year(s) outstanding*	*Status of voting rights*[2]
Lithuania	572,585	1994(P)-1998	*NO*
Luxembourg	-		
Madagascar	14,287	1997(P)-1998	
Malawi	20,874	1996(P)-1998	
Malaysia	133,822	1998	
Maldives	15,684	1996(P)-1998	
Mali	44,018	1994(P)-1998	*NO*
Malta	-		
Mauritania	93,020	1988(P)-1998	*NO*
Mauritius	6,678	1998	
Mexico	405,355	1998(P)	
Mongolia	-		
Morocco	-		
Mozambique	-		
Myanmar	6,678	1998	
Namibia	6,540	1998	
Nepal	617	1998(P)	
Netherlands	-		
New Zealand	-		
Nicaragua	110,795	1986-1998	*NO*
Niger	74,847	1991(P)-1998	*NO*
Nigeria	220,841	1997(P)-1998	
Norway	-		
Oman	-		
Pakistan	53,418	1998	
Panama	21,004	1996(P)-1998	
Papua New Guinea	14,627	1997-1998	
Paraguay	6,678	1998	
Peru	170,917	1996(P)-1998	
Philippines	49,691	1998(P)	
Poland	-		
Portugal	267,645	1998	
Qatar	85,676	1997(P)-1998	
Republic of Korea	51,372	1998(P)	
Republic of Moldova	689,360	1993(P)-1998	*NO*
Romania	140,221	1998(P)	
Russian Federation	9,586,879	1996(P)-1998	
Rwanda	54,710	1993(P)-1998	*NO*
Saint Kitts and Nevis	33,116	1995(P)-1998	*NO*
Saint Lucia	-		
Saint Vincent and the Grenadines	90,319	1989(P)-1998	*NO*
Sao Tome and Principe	110,795	1986-1998	*NO*
Saudi Arabia	2,428,631	1995(P)-1998	*NO*
Senegal	392	1998	
Seychelles	62,703	1992(P)-1998	*NO*
Sierra Leone	76,214	1990(P)-1998	*NO*
Slovakia	-		
Slovenia	146,580	1997-1998	

	Outstanding contributions (In equiv. US dollars) (at RoE: 12.40)[1]	*Year(s) outstanding*	*Status of voting rights*[2]
Somalia	110,795	1986-1998	*NO*
Spain	-		
Sri Lanka	-		
Sudan	6,455	1998	
Suriname	22,135	1996(P)-1998	
Swaziland	-		
Sweden	1,147,846	1998	
Switzerland	-		
Syrian Arab Republic	60,634	1997(P)-1998	
Tajikistan	233,789	1993-1998	*NO*
Thailand	118,700	1998	
The former Yugoslav Republic of Macedonia	19,794	1996(P)-1998	
Togo	56,058	1993(P)-1998	*NO*
Tonga	-		
Trinidad and Tobago	62,321	1996(P)-1998	
Tunisia	-		
Turkey	361,240	1998	
Turkmenistan	142,337	1995-1998	*NO*
Uganda	38,63[illegible]	1994(P)-1998	*NO*
Ukraine	7,574,098	1994(P)-1998	*NO*
United Arab Emirates	423,747	1996(P)-1998	
United Kingdom of Great Britain and Northern Ireland	-		
United Republic of Tanzania	58,640	1992(P)-1998	*NO*
Uruguay	49,536	1997(P)-1998	
Uzbekistan	420,604	1996(P)-1998	
Vanuatu	61,285	1992(P)-1998	*NO*
Venezuela	146,145	1998	
Viet Nam	7,611	1997(P)-1998	
Yemen	80,205	1991(P)-1998	*NO*
Yugoslavia[3]	1,725,206	1990(P)-1998	*NO*
Zambia	36,210	1994(P)-1998	*NO*
Zimbabwe	6,678	1998	
Subtotal (168 Member States)	61,704,031		
United States of America[4]	60,781,177	1994(P)-1996	*NA*
Total	**122,485,208**		

Summary of outstanding contributions by year:

	Dollars	Schillings	Total dollar equivalent (at RoE: 12.40)
1986	45,081		45,081
1987	47,561		47,561
1988	74,584		74,584
1989	100,250		100,250
1990	493,637		493,637
1991	760,201		760,201
1992	1,022,527		1,022,527
1993	1,472,822		1,472,822
1994	10,032,748		10,032,748
1995	36,543,033		36,543,033
1996	3,871,616	366,256,682	33,408,437
1997	1,497,663	141,680,487	12,923,490
1998	4,461,052	261,637,540	25,560,837
Total	**60,422,775**	**769,574,709**	**122,485,208**

Notes:

(P) Partial payment

1. RoE—Rate of Exchange: According to financial rule 110.7, all UNIDO transactions, in currencies other than United States dollars, shall be recorded at the official rate of exchange established by the United Nations between the dollar and other currencies.

2. The voting rights of 62 Member States have been suspended.

3. In accordance with General Conference resolution GC/S.1/Res.1, the Federal Republic of Yugoslavia (Serbia and Montenegro) cannot continue automatically the membership of the former Socialist Federal Republic of Yugoslavia in UNIDO. Board decision IDB.19/Dec.5 on payment plans was not communicated to this country.

4. Member State of UNIDO until 31 December 1996.

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MEDIUM-TERM PROGRAMME FRAMEWORK, 2000-2003

Preview of the medium-term programme framework, 2000-2003, and preliminary indicative general ceiling for the programme and budgets, 2000-2001.

Proposals of the Director-General

Introduction

1. It is recalled that the General Conference, at its sixth session, decided to rename the "medium-term plan" the "medium-term programme framework" (MTPF) and to reduce its period of coverage from six to four years (GC.6/Dec.10).

2. In view of the ongoing transformation of UNIDO and the adoption of the Business Plan on the Future Role and Functions of UNIDO (IDB.17/Dec.2), the General Conference, at its seventh session, decided that the MTPF, 1998-2001 was no longer applicable. The Director-General was thus requested to submit to the fifteenth session of the Programme and Budget Committee, a revised MTPF, 2000-2003, as concise as possible and closely linked to the new programmatic framework of the programme and budgets (GC.7/Dec.15, (e)).

3. The Conference also requested the Director-General to present to the Board at its twentieth session a preview of the revised MTPF, 2000-2003 and a preliminary indicative general ceiling for the programme and budgets, 2000-2001 (GC.7/Dec.15, (g)). The preview is provided in the present document. It is kept as brief as possible and seeks only to present to Member States the principles that will guide the medium-term programme of UNIDO and which will be specified in the document to be submitted to the fifteenth session of the Committee.

I. GENERAL ORIENTATION AND BASIC PRINCIPLES

4. The year 1998 is the final year of a major transformation process of UNIDO that has encompassed changes in the organizational structure, budgetary adjustments, efficiency-enhancing measures, streamlined

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procedures, decentralization and delegation of authority, and the definition of new programmatic priorities for the Organization's services. The year 1999 will see the systematic application of the new programmatic focus and the related new management principles. Performance will be measured through a set of transparent indicators and lessons learned therefrom will guide the Organization's work in the period covered by the revised MTPF.

5. Within the framework of the Secretary-General's reform initiatives, UNIDO will sharpen its profile as the central coordinating agency in the field of industrial development. As part of system-wide mechanisms, such as the United Nations Development Assistance Framework (UNDAF), UNIDO will focus on elaborating and implementing comprehensive support programmes and enhancing international industrial cooperation. The Organization, based on strategic cooperation agreements with other United Nations organizations, will act as an effective player in United Nations country teams and ensure that industrial development is an integral element of overall United Nations country support programmes.

6. The revised MTPF will be presented on the basis of the Business Plan and will be structured, in its substantive parts, around the new integrated services of UNIDO. These integrated services—which may be subject to further fine tuning in consultation with Member States—in principle encompass:

Industrial Governance;
Industrial Export Capacity-building;
Industrial Information Networking;
International Industrial Partnerships;
Quality and Certification for Industrial Competitiveness;
Cleaner Industry and Environment;
Efficient Energy Development;
Agro-related Industrial Development;
Local Industrial Development; and
Women Entrepreneurship Development.

7. The revised MTPF will also elaborate on the introduction of innovative managerial tools, such as the creation of an internal exchange mechanism for the different components of the integrated services of UNIDO. This approach is aimed at harnessing the full potential of UNIDO to deliver service packages in response to complex industrial development problems in different recipient countries and to better coordinate UNIDO's work with that of other United Nations organizations.

8. Each integrated service will reflect the dual role of UNIDO as a global forum and as a provider of specialized technical cooperation. Both roles are closely interlinked and complementary. For example, lessons learned through implementing technical cooperation services often provide valuable information and insight for dissemination to industrial policy makers and support institutions throughout the developing world. Conversely, policy-level debates on new approaches to industrial development may often lead to reorienting specific country-level technical cooperation projects. Through a clear action-orientation and a further focusing of its research work during the MTPF period, UNIDO will continue to strengthen synergies between its two fundamental roles and thereby achieve a stronger development impact.

9. In terms of regional and country priorities, the revised MTPF will emphasize UNIDO's support to African countries and least developed countries and, in this context, will introduce special mechanisms to ensure an adequate geographical concentration of UNIDO activities in accordance with the Business Plan. Targeted support approaches will also be developed for other developing regions and for the countries with economies in transition with particular attention to enhancing intraregional and interregional cooperation in the framework of economic and technical cooperation among developing countries.

10. Efforts to further diversify the sources of funding for technical cooperation activities will be an important element of the revised MTPF. In particular, the Organization will increase its funds mobilization efforts in, and jointly with, the beneficiary countries where essential decision-making authority frequently lies. This is valid not only for bilateral donor funds but also for funds from development finance institutions, self-financed activities and UNDP financing.

11. The revised MTPF will give special emphasis to further strengthening UNIDO's field representation through appropriate means, including the temporary and/or permanent outposting of substantive staff to field offices depending on the size and scope of individual country and/or subregional support programmes.

II. PROGRAMME AND BUDGETS, 2000-2001 (INCLUDING GENERAL CEILING)

12. In the programme and budgets, 2000-2001, UNIDO intends to continue improving the presentation of programmatic activities and outputs, including their interlinkages in achieving broad objectives and development impact. In so doing, the overarching framework and point of reference will be the new integrated UNIDO services outlined in paragraph 6 above. In the budgeting process, more emphasis will be placed on the setting of objectives and the achievement of results. Results-oriented performance indicators will be further developed to enable a transparent monitoring of progress.

13. Objectives/results-based budgeting must be matched by delegation of authority and flexibility in the use of resources. Therefore, more emphasis will be placed in the budgeting process on the overall financial allocations to programmes rather than on specific items of expenditure. This will, in turn, call for more accountability from programme managers in the actual utilization of resources. Regarding the issue of increased flexibility in the allocation of budgetary resources, the Secretariat will seek the guidance of the intersessional group on proposed amendments to the financial regulations of UNIDO with a view to amending financial regulations 4.3(b) and 4.3(c) that govern the transfer of expenditures.

14. Concerning the issue of the general ceiling for the 2000-2001 regular budget, it needs to be recalled that UNIDO has undergone a series of budgetary reductions in recent years, culminating in the 20 per cent decrease applied in the 1998-1999 regular budget. Concurrently, there is a growing demand in all developing regions for the Organization's refocused and better integrated services. Many substantive priority programmes, and also the much needed strengthening of UNIDO's field representation, are seriously constrained by the Organization's reduced budget.

15. While the budgetary resource endowment is thus placing narrow limits on the Organization's capacity to deliver essential services and ensure their impact, the Director-General recognizes the financial constraints faced by Member States in their national budgets. With these considerations in mind, the Director-General intends to propose for the 2000-2001 regular budget a general ceiling representing zero real growth.

III. ACTION REQUIRED OF THE COMMITTEE

16. The Committee may wish to recommend to the Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Recalls General Conference decision GC.7/Dec.15, (g);

"(b) Takes note of the preview of the medium-term programme framework, 2000-2001 and the preliminary indicative general ceiling for the programme and budgets, 2000-2001 representing zero real growth, contained in document IDB.20/9-PBC.14/8;

"(c) Requests the Director-General to submit to the Programme and Budget Committee, at its fifteenth session, a revised medium-term programme framework, 2000-2003, in line with the principles established in document IDB.20/PBC.14/8."

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REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT FOR THE BIENNIUM 1996-1997

Comments of the Director-General on the Report of the External Auditor

CONTENTS

		Paragraphs	*Page*
Introduction		1	2
Chapter			
I.	GENERAL COMMENTS	2	2
II.	SPECIFIC COMMENTS	3 - 39	2
III.	ACTION REQUIRED OF THE COMMITTEE	40	5

For reasons of economy, this document has been printedn a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

Introduction

1. The present document provides the Director-General's comments on the report of the External Auditor covering the period 1996-1997 (PBC.14/3-IDB.20/3). While many comments made on the draft version are reflected in the final report, the Director-General feels it necessary to make additional comments so that Member States are presented with a broader perspective on the audit findings. The Director-General, in presenting his views, would like to express his appreciation for the observations and recommendations made by the External Auditor and the constructive manner in which the audit was carried out.

I. GENERAL COMMENTS

2. The Director-General has found the External Auditor's report very useful in his efforts to transform the Organization. As reflected in the report, many actions have already been taken to implement the recommendations.

II. SPECIFIC COMMENTS

III. Budgetary, accounting and financial reporting procedures*

C. Regular budget unliquidated obligations (paras. 44-46)**

3. The Director-General is aware of the problem and fully concurs with the opinion of the External Auditor. Early this year, he initiated an exercise to reduce unliquidated obligations. So far, over $600,000 unnecessary obligations have been identified and liquidated. The exercise will be continued with more vigour and new procedures will be introduced.

D. Unliquidated obligations—UNDP operating fund (paras. 47-52)

4. As stated in paragraph 3 above, the Director-General will pay special attention to the timely liquidation of obligations and will introduce strict measures.

F. Recording contributions-in-kind (paras. 54-60)

5. The comments of the External Auditor do not fully reflect the actual situation in respect of the two specific cases described. In particular, the quotation attributed to the Director-General under paragraph 56 does not include an important sentence which formed part of his authority as follows: "I would appreciate it if, in accordance with the financial rules, you will submit such projects to me without delay with an appropriate advice."

6. In the subject cases, the Director, Financial Services, in a notation to a memorandum, had indicated agreement to the waiver of support costs. The Secretariat agrees with the view that the utilization of cost-free experts could indeed result in additional costs to the Organization for which support costs should be levied. However, the two specific cases referred to by the External Auditor do not require any additional administrative or other costs.

7. Finally, it is important to emphasize that the Secretariat has never suggested, nor intends to do so in the future, any general waiver of support costs.

IV. Cash management

B. Liquidity position (paras. 63-87)

8. The Director-General appreciates the analysis of the liquidity position provided by the External Auditor. As a result of various measures taken by the Director-General since December 1997 in containing expenditures, including those related to the staff separation exercise, the Organization expects to achieve a moderate but positive cash balance at the end of 1998 sufficient to cover outstanding obligations. The Director-General recognizes that restrictions on expenditures must take into account the need to provide resources for the important substantive and support activities of the Organization, including the maintenance of the Vienna International Centre (VIC), which is cost-shared with other organizations.

9. Improvements have been made to the Treasury systems for forecasting cash income and disbursements, but it must be stated that estimating cash flow in the light of uncertain cash income requires a high level of judgement based on previous experience.

10. An intensive effort has been made to improve the situation in respect of outstanding assessed contributions, particularly following the report of the open-ended discussion group on timely payment of assessed contributions, chaired by H.E. Mr. A. Benmoussa (Morocco), which developed concrete proposals in this respect.

V. Contracts and purchases

A. Post-facto requisition (paras. 88-89)

11. The Director-General shares the concerns expressed by the External Auditor regarding compliance with rules in the areas of contracts and purchases. Management actions recently taken in this area precisely address this problem.

VI. Publications

*Chapter titles refer to those in the report of the External Auditor (IDB.20/3-PBC.14/3).

**Paragraph numbersrefer to paragraphs in the report of the External Auditor (IDB.20/3-PBC.14/3).

A. Publication strategy and Publications Board (paras. 91-92)

12. The Director-General has some reservations on the findings of the External Auditors. By referring merely to the findings of the "renewed investigation in early 1997", paragraph 92 deals with a period during which the position of the Secretary of the Board/Committee was filled only on an interim basis. This paragraph also ignores the many improvements to the management of the publications programme made in the months following the "renewed investigation in early 1997". It may be noted in this context that a policy of holding regular meetings twice a month was instituted at the sixth meeting of the Publications Committee on 13 March 1997, and this policy was adhered to, with only a few minor deviations from time to time, until the holding of the thirteenth meeting on 9 December 1997. All of these meetings were well attended.

13. No further meetings were held in 1998 following the suspension of the Publications Board and Committee on 9 January 1998. However, the Director-General has recognized the importance of having a sound publication strategy. It was for this reason that the responsibilities of the Special Assistant to the Director-General on Major Policy Issues specifically include "to develop a new UNIDO publications policy and strategy, both for printed and electronic publications and, in that context, to assume the chairmanship of a new cross-organizational team on publications (the successor body to the Publications Committee of UNIDO)." (UNIDO/DGB(O).82/Add.3 dated 23 June 1998).

B. Publications and C. Conclusions (paras. 93-100)

14. The former Public Information Section made a major effort to assess in advance the demand for its various printed products, and in almost all cases these projections have proven to be accurate. The French and Spanish versions of "UNIDO 1994: The Year in Review" represented the only significant exceptions to this general state of affairs. The technical difficulties encountered with the 1996 edition of the Global Report may be described as "teething troubles" associated with the implementation of the new external publication contracts, and did not recur in the case of the 1997 Report.

15. The improvements already implemented include regular monthly meetings of the Publications Committee from March 1997 onwards, the initiation of credit card sales, the preparation of a publications catalogue, etc.

16. The Director-General shares the concerns of the External Auditor, and he is carrying out a comprehensive review of the content, presentation and publication arrangements of the Global Report. Possible options include discontinuing temporarily the French and Spanish versions and a review of the publication agreement with Oxford University Press.

17. The need for an efficient supervision of contracts and cost accounting system for publications will be addressed in the future comprehensive publications policy and strategy to be developed by the Special Assistant to the Director-General on Major Policy Issues. The four substantive issues and recommendations raised in paragraph 100 will be taken into account in the development of the new publications policy and strategy by the Special Assistant to the Director-General on Major Policy Issues.

18. The Director-General is convinced that these measures will result in appropriate solutions to the valid concerns of the External Auditor.

VII. Common services

A. Buildings Management Service (paras. 102-108)

19. The Director-General appreciates the suggestions of the External Auditor that the memorandum of understanding on the cost sharing of Buildings Management Service be terminated and that all common services be centralized. Obviously, such moves need to be undertaken within the framework of the reform of the United Nations system and for that, the support of Member States would be needed.

20. In the meantime, the Director-General intends to pursue the realistic course of action to further improve the cost efficiency of Buildings Management Service operations and simultaneously reopen negotiations with the executive Heads of other Vienna-based organizations, with the possibility of establishing centralized common services in future.

B. IAEA sharing of termination indemnity costs for Buildings Management staff (paras. 109-111)

21. The Director-General will continue efforts to settle the dispute with IAEA.

C. Catering Service (paras. 112-114)

22. The Director-General agrees with the recommendations of the External Auditor and will implement them in the course of the next bidding exercise later in 1998.

D. Removal within the VIC (paras. 115-117)

23. In a note verbale dated 14 July 1998, the Government of Austria informed the Secretariat, with regard to the audit report, that: "The Government of Austria neither had the intention nor made a promise to reimburse UNIDO for the costs for the actual removal and operating costs for the vacated area during the period September 1996 through March 1997. The respective information contained in the report is untrue and does not correspond to the facts. The correction of the wording is therefore urgently asked for."

VIII. Technical cooperation activities

B. UNIDO's field representation (paras. 127-133)

24. The Director-General is pleased to inform that, to a significant extent, the concerns expressed by the External Auditor regarding the delegation of authority to field offices have already been addressed. Director-General's Administrative Instruction No. 6 (13 May 1998) covers the new financial authorization system, and Director-General's Administrative Instruction No. 7 (14 May 1998) addresses the decentralization and delegation of authority to field offices. This and related information was provided to the Board at its nineteenth session (IDB.19/11 and summary records). Efforts will be continued to establish an effective field representation system as soon as possible.

C. Administration and management of UCD Offices (paras. 134-142)

25. The Director-General is convinced that the new organizational structure, which was based on the Business Plan, and a number of measures introduced in 1998 will address the concerns raised by the External Auditor.

D. Improvement of quality management (paras. 143-148)

26. It should be pointed out that, despite difficulties encountered, one team under the self-assessment exercise has continued its work, leading to the establishment of proposed UNIDO performance indicators. The results of these efforts are reflected in documentation to and emanating from the nineteenth session of the Board (IDB.19/6, IDB.19/CRP.2, and summary records). The Cross-Organizational Team on programme quality referred to in paragraph 146 issued a report in early May 1998, and work is going on to implement the recommendations.

IX. Information technology

A. Backlog of EDP application maintenance (paras. 149-157)

27. The Director-General has recently approved a short-term strategy to increase information technology support for the Organization. This strategy has a detailed plan on how to improve the financial systems, technical cooperation support systems and communication. The strategy also takes care of the "year 2000" problem and other maintenance issues. The Cross-Organizational Team on Management Information Service (EDP) established in early 1998 completed its task at the end of April, and, based on the recommendations, it is expected that by early 1999 significant improvement will be made in information technology of UNIDO.

X. Organizational matters

A. UNIDO's Geneva Office (paras. 158-177)

28. The Director-General considers that the main justification for the continued existence and operation of the UNIDO Office in Geneva must be viewed in the broader context of policy decisions taken by Member States with regard to the future role and functions of UNIDO as well as the overall strategy of the Director-General to bring UNIDO into closer working relationship with the rest of the United Nations system. Any recommendation with regard to the continued functioning of the Geneva Office must therefore be made on the basis of its **future role** rather than on previous circumstances that have largely been superseded by a new policy framework.

29. In decision IDB.17/Dec.2 (Business Plan on the Future Role and Functions of UNIDO) Member States called on UNIDO to "concentrate on those support functions in which the Organization has a comparative advantage over other multilateral development organizations". In response to this decision, the Director-General stressed during his inaugural statement the need to reduce "the overlapping and duplication of tasks and activities with other agencies in the Multilateral System and ... to integrate UNIDO more precisely in the United Nations System".

30. Accordingly, the Director-General has assigned priority to promoting closer cooperation with the United Nations in line with the ongoing reform programme being undertaken by the Secretary-General, with a view to maximizing organizational cost-effectiveness and efficiency and enhancing service delivery to Member States. In March 1998, the Director-General signed a new memorandum of understanding with the Secretary-General of the United Nation Conference on Trade and Development (UNCTAD) establishing a clear division of labour between the two organizations based on their respective comparative advantage. It should be stressed that the Geneva Office played a key role in preparing the groundwork for the conclusion of the memorandum of understanding. This is only one of the good examples to demonstrate the effectiveness of the Geneva Office in inter-agency matters. A similar agreement is now under active negotiation with the International Trade Centre (ITC). Furthermore, UNIDO is pursuing its interest in taking part in the follow-up to the High-Level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development, and to contribute its expertise and experience to the Integrated Framework for Trade-Related Technical Assistance jointly with the World Trade Organization (WTO), the World Bank, the International Monetary Fund, UNCTAD, UNDP and ITC. The Geneva Office is also closely involved in following up with ITC and WTO, UNIDO's participation in the Integrated Framework for Trade-Related Technical Assistance for LDCs.

31. In addition, the Geneva Office is closely monitoring the ongoing discussions in the Committee on Trade and Environment on quality and standards that are expected to affect process and production methods in developing countries. The Geneva Office is serving as the main channel of communication between the Committee and UNIDO Headquarters.

32. Finally, as emphasized by the Geneva-based Permanent Missions to UNIDO, the Geneva Office is

indispensable to keeping them informed about relevant developments in UNIDO and serving as a point of contact between UNIDO Headquarters and their Missions. A majority of those Permanent Missions are from countries in Africa and the least developed countries (LDCs) that cannot afford to maintain a regular representation in Vienna. It should be noted that UNIDO has reaffirmed the priority it attaches to Africa and the LDCs. The closure of the Geneva Office will not only send a contrary signal, but will also deprive them of a regular channel of information and communication with the rest of the membership of UNIDO.

33. Given the essential role of the Geneva Office in the broader context of UNIDO's new policy and strategy, the Office, which has been downsized, should remain open. It should be added that under paragraph 11 of the memorandum of understanding between UNIDO and UNCTAD, both organizations have agreed to offer office space, common premises and the use of services at their respective headquarters on a reciprocal basis in order to achieve more economy.

34. The Director-General notes that the observations and findings of the External Auditor precede the decision taken by UNIDO Member States to pursue closer cooperation with the rest of the United Nations system as part of the UNIDO Business Plan. While scope exists to strengthen coordination between Headquarters and the Geneva Office and to address some of the observations made by the External Auditor, the recommendation to close the Office is not shared by the Director-General. Once again, any decision on the future of the Geneva Office must be made in the context of the new realities of a rapidly changing multilateral system of cooperation in which UNIDO must continue to play a major role if it is to survive and thrive. With the above in mind, the Director-General intends to propose a change in the programme and budgets, 1998-1999, as regards the status of the Geneva Office.

B. Committees in UNIDO (paras. 178-184)

35. The Director-General concurs with the External Auditor on the need to streamline UNIDO internal committees. Indeed, he has reduced the large number of committees (110 in 1995) to just five in early 1998.

XI. Personnel matters

C. Women in the Secretariat (paras. 191-198)

36. The Director-General is concerned about the level of representation of women in the Secretariat. The figures, however, need to be calculated on a common base, i.e. posts subject to geographical distribution.

37. As at 31 December 1995 and, as indicated in the Annual Report 1995 (IDB.16/10/Add.1, table 3(a)), the overall representation of women was 79 or 24.6 per cent Fifteen women occupied posts at the senior level (P-5 and above) resulting in a share of 13.2 per cent (not 11.9 per cent as reported by the External Auditor).

38. Similarly, as at 31 December 1996 and as indicated in the Annual Report 1996 (IDB.17/10/Add.1, table 3(a)), the overall representation of women was 23.1 per cent and not 22.7 per cent. The number of women occupying posts at the senior Professional level decreased to 12 resulting in a share of 12.5 per cent (not 11.2 per cent as reported by the External Auditor).

39. In future recruitment and re-organization, the Director-General will pay close attention to the issue of women representation in the Secretariat.

III. ACTION REQUIRED OF THE COMMITTEE

40. The Committee may wish to take note of the information contained in the present document.